

# MISSING PAGE

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TAB 16 MISSING

State Dept., DIA reviews completed

15 MAY 1948

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## GENERAL

1. Satellite reaction to Smith-Molotov exchange--The US Military Attache in Sofia reports that the Bulgarian public has interpreted the Smith-Molotov exchange as a US ultimatum to the USSR to cease interfering in such countries as Bulgaria, and as the first indication of definite action by the US to liberate eastern Europe. The MA adds that failure of the US action to produce definite relief from Communist oppression in Bulgaria will result in almost complete disillusionment concerning US world influence. US Minister Heath in Budapest also reports that the US-Soviet exchange has added to a feeling of optimism which has been growing in Hungary since the Italian elections. According to Heath, many Hungarians now feel that Hungary's political life may be substantially changed even if there is no war, and that the Soviet tide will now begin to recede.

## EUROPE

2. TRIESTE: Separate ERP status urged for US-UK Zone--General Airey, US-UK Commander in Trieste, recommends that the US-UK Zone be granted individual membership in the European recovery program instead of receiving aid as "a part of Italy." General Airey points out that failure to grant the Zone individual membership (a) might result in AMG being forced to take part in a form of economic warfare with Yugoslavia which would result in increased political tension; (b) would make it impossible for AMG to maintain the existing political balance in the US-UK Zone; and (c) would retard economic development in Trieste and severely limit Trieste's contribution to western European recovery.

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3. AUSTRIA: USSR reduces travel restrictions--According to US Commanding General Keyes, the Soviet deputy commissioner has told a US official in Vienna that there is no longer reason to continue the present prohibitions on US travel through the Soviet Zone. Concerning the Soviet official's indication that the Soviet repatriation mission has been well pleased with its treatment in the US Zone, Keyes points out that the Soviet travel restrictions had been imposed as alleged reprisals for discourtesies to a previous Soviet mission.

(CIA Comment: Within the past two weeks, the Soviet attitude toward the US in Austria has been increasingly conciliatory. The readmission of the Soviet repatriation mission has afforded the USSR an opportunity, without losing face, to discontinue the remaining restrictions on US travel through the Soviet Zone.)

US favors week's suspension of treaty talks--The Department of State has advised the US representative at the Austrian treaty talks in London that while the US can consider no concessions on the issues of frontier revisions and reparations, the US wishes (a) to avoid "closing the door" on future treaty discussions; and (b) to be in a position to resume negotiations if circumstances make early conclusion of a treaty desirable. The Department suggests that negotiations be suspended for a week to permit the Soviet delegates to obtain instructions from Moscow; if the USSR then makes no acceptable proposals, the US delegation might consult with the British and French on the advisability of adjourning the talks for a definite period of perhaps four months.

#### FAR EAST

4. CHINA: Possible elimination of Chiang Kai-shek--US Embassy Nanking reports that Chiang Kai-shek's recent military appointments and prospective Cabinet reshuffling indicate that he is incapable of comprehending recent developments in China or of adapting himself to them. The Embassy believes that the

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reform movement, centering around the new vice president Li Tsung-jen, has reached such proportions that "it can no longer be denied." The Embassy also considers that (a) Chiang Kai-shek, because of his inflexibility and blindness, will be removed from the political scene by those forces he is seeking to smother; and (b) "the sooner this happens, then the greater will be the prospects that the reform forces can rally the country to check the Communist tide."

(CIA Comment: While the fall of Chiang Kai-shek may not be imminent, CIA concurs in the Embassy's opinion that the pressures for his removal are steadily gathering strength. However, Chiang's departure from the political scene would likely be accompanied at first by further disintegration in Nationalist China; under these conditions, the Chinese Communists would gain some initial advantages.)

#### THE AMERICAS

5. VENEZUELA: Reported plans for oil-field sabotage--US Consulate Aruba reports that the Governor of the Dutch islands of Aruba and Curacao has received "reliable information" of plans to sabotage the Lake Maracaibo oil fields in Venezuela on 15 May and to sink a ship in the Lake's outlet channel to the Caribbean. (During the last month, US and Venezuelan authorities and the local oil companies have received several reports of intended sabotage. Both production facilities in Venezuela and refining facilities in the neighboring Dutch islands of Aruba and Curacao are highly vulnerable to sabotage; one ship sunk in the Maracaibo channel would effectively cut off a large proportion of the crude oil going to the refineries on the islands.)

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